





As the Chesebrough-Pond's product line has broadened through the years from its health and beauty product base to include packaged foods, fragrances, children's apparel and hospital products, there has been no relaxation of the commitment to provide families worldwide with quality goods fairly priced. Among the major brands whose names reflect that commitment are Ragú, Health-tex, Vaseline, Pond's, Adolph's, Vaseline Intensive Care, Cutex, Cachet, Wind Song, Aviance, Prince Matchabelli, Pertussin, Q-tips and Aziza.

Financial Highlights

	1976	1975*	% Increase
Net Sales	\$746,986,000	\$674,583,000	10.7
Net Income	54,134,000	47,922,000	13.0
Earnings Per Share	1.69	1.50	12.7
Dividends Per Share	.76	.68	11.8
Shareholders' Equity	\$317,002,000	\$282,822,000	12.1
Average Shares Outstanding During Year	32,121,000	31,858,000	.8
Number of Shareholders at Year End	14,147	13,538	4.5

*Share data restated to reflect two-for-one stock split.

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The composition of Chesebrough-Pond's Inc. has changed dramatically since the beginning of the decade, reflecting the Company's accomplishments in strengthening and broadening its product lines and increasing its commitment to provide quality and value to the consumer.

Sales by Product Line 1970, 1976



The year 1976 was a good year for your Company with sales records being achieved in all six operating divisions and record profits in all except the International Division. While earnings were up over the prior year in International, the results of foreign currency devaluations affected earnings by approximately \$3.2 million. While less than the \$5.3 million effect in 1975 nevertheless it had a negative effect on after-tax earnings of approximately 13 cents per share.

Overall corporate sales were up 10.7 per cent, reaching a new high of \$747 million and earnings improved 13 per cent to an all time high of more than \$54 million, or \$1.69 per share. These accomplishments made 1976 the 21st consecutive year of increased sales and profits.

As pointed out in our Annual Report last year, management of our resources will become increasingly important in future years, and while we expect to surpass the billion dollar sales level before the end of the decade, the real value of this growth will be measured in terms of the quality of earnings increase year to year. In this respect, we believe 1976 results were an encouraging indication of the progress to be made in the future. Performance varied division by division, but as indicated in the financial section in this report, we were able to show overall corporate progress in terms of managing our inventories and improving our operating and pre-tax margins, net profit to sales ratio, debt equity ratio and current ratio.

At the Annual Meeting last May, I linked the quality of our products with the continuous need to strengthen our organization and management as essential

in working towards our goal of growth through qualitatively improved earnings. We believe progress was made during the past year in strengthening our decentralized system of management within our divisions.

In 1967, when our Annual Report showed sales of \$165,725,000 and profits of \$14,783,000, Chesebrough-Pond's was essentially a health and beauty products company with a centralized vertical management structure. During the ten years since that time we have pursued an aggressive course in product development, manufacturing improvement and marketing initiative as well as an active diversified acquisition program. The *Intensive Care* line of products was started with the successful launching of *Vaseline Intensive Care* Lotion in 1970. The expansion of our *Prince Matchabelli* line of products began with the introduction of the *Cachet* fragrance line in 1970 followed by the equally successful launch of the *Aviance* fragrance line in 1975. The acquisition of the business of the Ragú Packing Co., Inc. in 1969 opened a new, profitable area of expansion for us in the specialty food category. This was followed by the acquisition of Adolph's in 1974 and the successful launching of *Ragú* Italian Cooking Sauce in 1975. Our entry into the children's apparel market through the acquisition of Health-tex in 1973 has added to our potential for growth and over the past three years has helped to improve our quality of earnings on a return on assets basis.

These examples of internally developed new products and the successful marketing of products acquired through the Ragú, Adolph's and Health-tex acquisitions accounted for more than 50 per cent of our 1976 worldwide sales.

As we have expanded and diversified, it has been necessary to plan and execute changes in our organizational structure to insure that we would have the management capability to run our business on a day-to-day basis as well as longer term. In the 1969-70 period we started to develop the new organization and by 1972 had made considerable progress in terms of establishing the framework for a more decentralized organization with a better capability to meet the requirements of our growing, diversified business. Considerable facilities expansion was also accomplished throughout this period as well as in the succeeding years. In the early part of this year we completed the final major steps to establish the marketing, manufacturing and financial operations within all divisions.

In a parallel move with this series of changes the corporate supervisory and support groups were realigned and strengthened.

Today we believe your Company is equipped to handle day-to-day activities quickly and efficiently and is in a strong position to develop its business in the years ahead.

The year 1976 was a year of real progress and as we continue to become an increasingly important part of many people's life pattern and to concentrate on filling the expanding needs of our primary customer—the family unit—a review of

the activities of our operating divisions this past year is appropriate.

Our Health and Beauty Products Division experienced another good year with sales reaching \$163,183,000, for an increase of 11.7 per cent, and operating profits increasing 13.4 per cent. Since price increases were a lesser factor than a year ago in affecting products in this Division and there were no major new products which added significantly to the volume for this period, sales gains came from improved market shares and consumer demand in most categories. *Q-tips* Cotton Swabs in particular, as well as *Vaseline Intensive Care* Lotion, *Vaseline Intensive Care* Bath Beads, *Vaseline Petroleum Jelly*, *Cutex* Products and *Pond's* Creams, showed improved results during the year. While our advertising was at a higher level than in recent years for all of these brands, we believe it was also of better quality and consequently more effective. With the new Extra Strength *Vaseline Intensive Care* Lotion now reaching national distribution levels backed by strong advertising, and other new products performing well in the test stage, we feel confident that further steady growth will result in 1977.

The Prince Matchabelli Division had an outstanding year in 1976 with sales climbing to \$72,621,000 for an increase of 27.4 per cent over last year and operating profits up 23.4 per cent. The *Wind Song*, *Cachet* and *Aviance* fragrance lines all reached new highs in sales with all three brands ranking within the top

ten in the fragrance category. Continued progress was also accomplished with the *Aziza* eye make-up line which showed a sales increase of more than 65 per cent and is rapidly becoming an important factor in the eye make-up category. The introduction of several new products is currently underway for this brand which should have a further impact on the continued growth of *Aziza* in the future. With the new Prince Matchabelli Division plant in Huntsville, Alabama past the start-up stage and running smoothly we expect a very good performance year for this Division in 1977.

While our Packaged Foods Division showed continued growth during the year with sales totaling \$151,542,000, up 8.2 per cent over last year, and profits on operations up 2 per cent, the cost of launching the new *Ragú* Extra Thick and Zesty Spaghetti Sauce limited profit growth during this period. In addition, competitive pressure from other brands entering the market had an adverse effect on the normal inventory levels of *Ragú* sauces in the retail trade during the latter part of the year. As we move into 1977, trade levels of inventories are improving and we expect to continue to show growth for this brand, which is the leader in the spaghetti sauce category, with sales totaling more than all other brands combined. As an important part of our Packaged Foods Division, the *Adolph's* brand of meat tenderizers and other products attained good growth with sales up approximately 15 per cent.

As some of you are aware, Hunt-Wesson Foods, Inc., which introduced the *Prima*

Salsa brand of spaghetti sauce during the year, brought suit against our Company alleging unfair competition and violation of the anti-trust laws. We are vigorously defending our position and are confident of a decision in our favor by the court.

Since approximately two-thirds of the homemakers in the United States still make their own spaghetti sauce from scratch, we are optimistic about the future growth of *Ragú* branded products in this category as well as in the other categories where we see opportunities for growth with tomato-based new products.

Major progress was made by our Hospital Products Division in 1976, particularly in the area of improved margins. Sales totaling \$23,632,000 were up 10.8 per cent while profit on operations was up 29.7 per cent. Since 1970, the Division has made steady progress in eliminating low margin items and improving its manufacturing efficiency levels through plant consolidations and the automation of many production operations. Also, many high margin new products have been successfully introduced. In 1977, we fully expect operating margins for hospital product operations to improve further while the Division achieves increased sales and profits.

The Health-tex Division showed continued growth during the year with sales reaching \$124,185,000, for an increase of 11.6 per cent, and profits on operations up 12.7 per cent. Sales were nearly double those of 1972, the year prior to the acquisition of Health-tex by Chesebrough-Pond's, and we believe the children's apparel area has excellent potential for additional growth in the coming years. With a strengthened management team

and with plants improving in efficiency our new capabilities give us the opportunity to add selectively to the size range in the preteen area in 1977. While we have had some difficulties in properly coordinating shipments to the trade during this period of facilities expansion, our performance is steadily improving and we expect to show major progress by year-end.

In the International Division, in spite of continued weaknesses in many foreign currencies, sales increased to \$211,823,000, for an increase of 6.5 per cent over the preceding year. While net profits improved 2.7 per cent, profit before tax improved by 32.8 per cent. The higher effective tax rate resulted from a larger portion of pre-tax profits earned in countries with high tax rates.

All International areas recorded improved sales and net profits with the exception of the Western Hemisphere group which showed a drop in net profits principally as a result of currency devaluations. While the total effect of exchange losses amounted to \$3,242,000, this was less than the \$5,332,000 effect in 1975. In 1976 we were affected mainly in Argentina, the United Kingdom, Italy and Zambia. Nevertheless we have done well in reducing our exposure in many areas of high risk through improved asset management. For example, in Mexico, where a major devaluation of the peso occurred, we were able to reduce significantly our exposure in advance of the first devaluation date. With the economies of the free world still under severe pressure, we

Ralph E. Ward, Chairman and President, visits the new Health-tex knitting mill in Cumberland, Rhode Island.



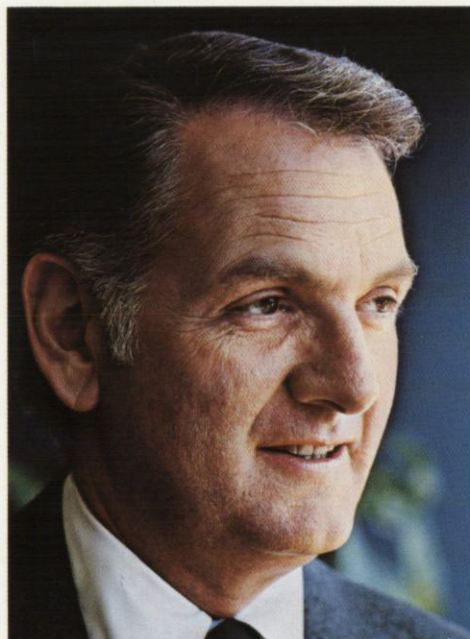
continue to make every effort to limit our commitments in countries where volatile economic or political conditions exist.

In achieving improved International results in 1976, the Company continued to benefit from the increased sales of *Prince Matchabelli* products abroad. Also, the marketing of *Ragú* and *Adolph's* products in Canada and Puerto Rico moved forward. While we do not expect conditions to improve that significantly during 1977 in most overseas areas, we are confident that we will experience improved results during the coming year.

In the area of capital expenditures our focus has been on facilities expansion for those product categories holding the greatest potential for growth. As you know, these expenditures reached a peak level of \$30 million in 1974. In 1976, total capital expenditures amounted to nearly \$15 million and we expect to remain below the \$20 million level in 1977.

While the primary focus of this letter has been on the development of our organization over recent years and the performance of our operating divisions during 1976, there were other activities of related interest which occurred during the year.

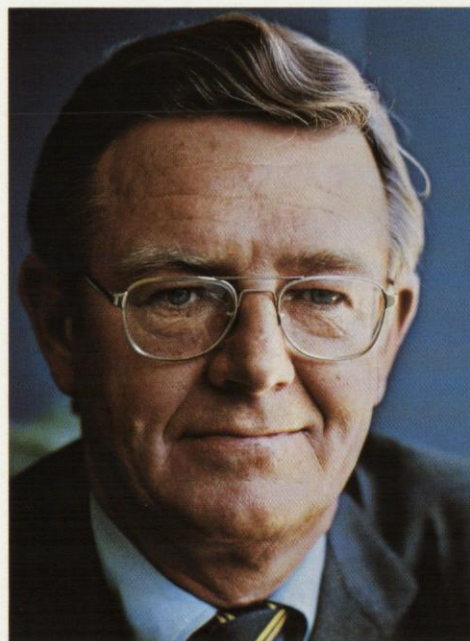
In the area of our social concerns Chesebrough-Pond's programs were again expanded during the year in support of minority organizations, educational institutions, civic activities in the areas of our major plant locations, and medical and health programs. We continued to provide increased levels of employment for all races and creeds as



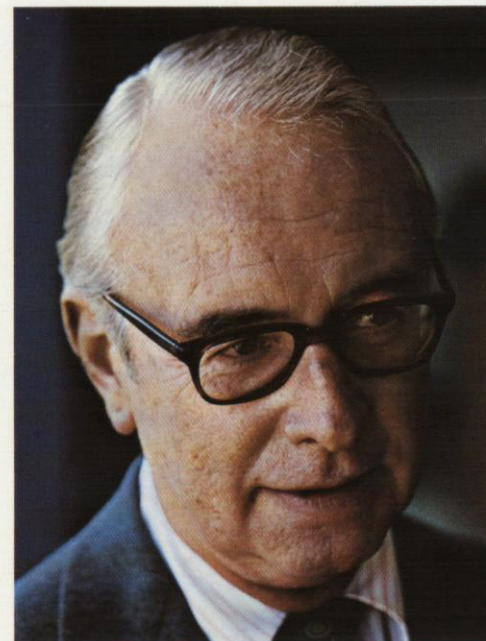
Donald G. Wiesen
Group Vice President



William L. Jackson
Group Vice President



Frank L. Stamberg
Group Vice President



J. Edgar Bennett
Group Vice President

our organization grew from 15,434 employees in 1975 to 15,972 in 1976, with the percentage of women in management positions increasing from 20.6 per cent in 1975 to 23.6 per cent in 1976. The proportion of minority group employees in the United States increased from 9.6 per cent in 1975 to 11.1 per cent in 1976.

During the year management reported to the Board of Directors transactions in two foreign countries amounting to approximately \$152,000 for the years 1972-1976 of a nature which indicate payments might have been made to government officials. The Audit Committee, with the full cooperation of management and the assistance of special counsel and independent auditors, undertook an investigation of all domestic and major international operations to determine whether other similar payments had been made by the Company during the years 1972-1976. In addition to the transactions referred to above, payments in the amount of \$11,800 of a similar nature, and in the same two foreign countries, were discovered. Substantially all payments in question were represented as payments to secure performance by government officials of their assigned functions. With the exception of one matter, senior management was not aware of these transactions before they were accomplished. While these amounts are immaterial in relation to sales of \$2.9 billion and earnings of \$219 million during the period, nevertheless management has reaffirmed its policies against such payments and has

taken steps to increase the scope of the Company's internal audit activity to insure compliance with all of the Company's policies. The Company has made the appropriate adjustments to its federal income taxes with respect to these matters.

At the Annual Meeting in May last year the Board of Directors recommendation to shareholders to split the common stock of the Company on a two-for-one basis was approved. At the same time the shareholders approved an increase in the authorized common shares to 50,000,000 on an after-split basis from the previously authorized 20,000,000 common shares. Following this action our number of shareholders increased to 14,147 by year-end compared to 13,538 at the end of 1975.

During the year management introduced a Dividend Reinvestment Plan through The Chase Manhattan Bank and we believe this has been well received by our shareholders.

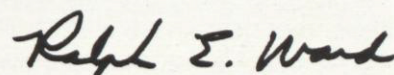
In February 1977, the Board of Directors voted an increase in the Company's quarterly dividend from 19 cents to 21 cents per common share, bringing the expected annual yield to 84 cents per share. The year 1977 will mark the 18th consecutive year in which the dividend payments will have been increased and the 95th year of unbroken dividend payments.

Before closing this letter, I would like to comment briefly on the importance to all of us, employees and shareholders alike, of maintaining our commitment to the free enterprise system. This is the best system to provide the fuel for the expansion of our economy, but it can

not function efficiently if government continues to act in a manner which perpetuates an imbalance between our social programs and our economic capabilities. The new Administration in Washington faces this serious contradiction today, and it remains to be seen whether an attempt will be made to correct this imbalance by encouraging business to improve profits, increase its capital base and provide real jobs. Certainly additional restrictions will have a negative effect. All of us must question and understand the balancing process and urge our elected officials to challenge business in a constructive way by taking positive actions to provide the stimulation necessary for the expansion of our economy in the future.

Our 21st consecutive year of record sales and earnings could not have been achieved without the support and interest of all employees around the world. On behalf of the Officers and Directors I wish to express appreciation for their continuing efforts and for the support of our shareholders.

As our brands and products continue to grow in popularity with an ever broadening family of consumers, we have reason to look to the future with continued optimism and we believe 1977 will be another record year of sales and earnings for Chesebrough-Pond's.



Ralph E. Ward
Chairman and President

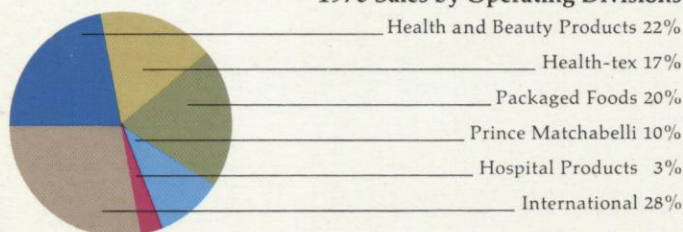
March 1977

Net Sales by Operating Divisions

(in thousands of dollars)

	Five-Year Average Growth	1976	1975	1974	1973	1972	1971
Health and Beauty Products	9.3%	\$163,183 +11.7%	\$146,071 +8.4%	\$134,755 +7.7%	\$125,129 -3.6%	\$129,802 +22.4%	\$106,043
Packaged Foods	25.5%	151,542 +8.2%	140,007 +39.0%	100,715 +25.8%	80,029 +30.3%	61,413 +24.4%	49,354
Prince Matchabelli	23.6%	72,621 +27.4%	57,002 +27.6%	44,689 +32.3%	33,789 +19.4%	28,300 +11.1%	25,470
Hospital Products	8.0%	23,632 +10.8%	21,325 +8.8%	19,596 +8.9%	17,999 +3.9%	17,331 +7.5%	16,118
Health-tex	17.6%	124,185 +11.6%	111,260 +30.0%	85,581 +20.3%	71,139 +11.3%	63,914 +14.6%	55,758
International	13.1%	211,823 +6.5%	198,918 +13.1%	175,921 +20.0%	146,643 +17.5%	124,821 +8.2%	115,338
Total	15.2%	\$746,986 +10.7%	\$674,583 +20.2%	\$561,257 +18.2%	\$474,728 +11.5%	\$425,581 +15.6%	\$368,081

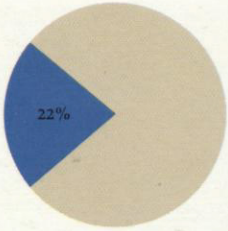
1976 Sales by Operating Divisions



Packaged Foods: *Ragú* Extra Thick and Zesty Spaghetti Sauce, a new formulation designed to win converts from among the millions of homemakers still going to the trouble of making their own sauce, joined the product line in July and by the end of the year had achieved a satisfactory share of the market. The Division also added two new *Adolph's* meat tenderizer flavors during the year. Capability for exploring future line extensions and new product developments has been strengthened with the opening of a new Food Research and Development Center in Shelton, Connecticut adjacent to the Corporate Research and Development Laboratories in Trumbull, Connecticut.



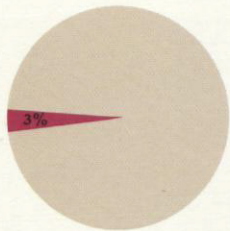
Health and Beauty Products: The marketing of the Company's Health and Beauty Products was aided by a substantial increase in consumer advertising and promotional support given to key brands. With this support four of the Division's largest brands in terms of sales—*Vaseline Intensive Care Lotion*, *Q-tips* Cotton Swabs, *Vaseline Petroleum Jelly* and *Pond's Creams*—achieved the greatest growth during the year. Combined with the increased advertising pressure, the introduction of a *Q-tips* Cotton Swabs 400-swab pack greatly improved the market position for this brand.



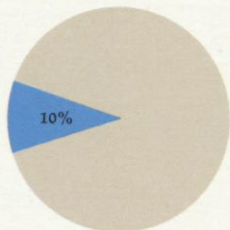
Health-tex: For many years *Health-tex* has been acknowledged to be one of the great brand names in children's apparel. This position has been strengthened with completion of a comprehensive facilities program which has expanded capacities by 50 per cent since 1973. An improved manufacturing scheduling system is also being installed which, together with this new capacity, will enable Health-tex to improve its deliveries to customers in 1977 and beyond.



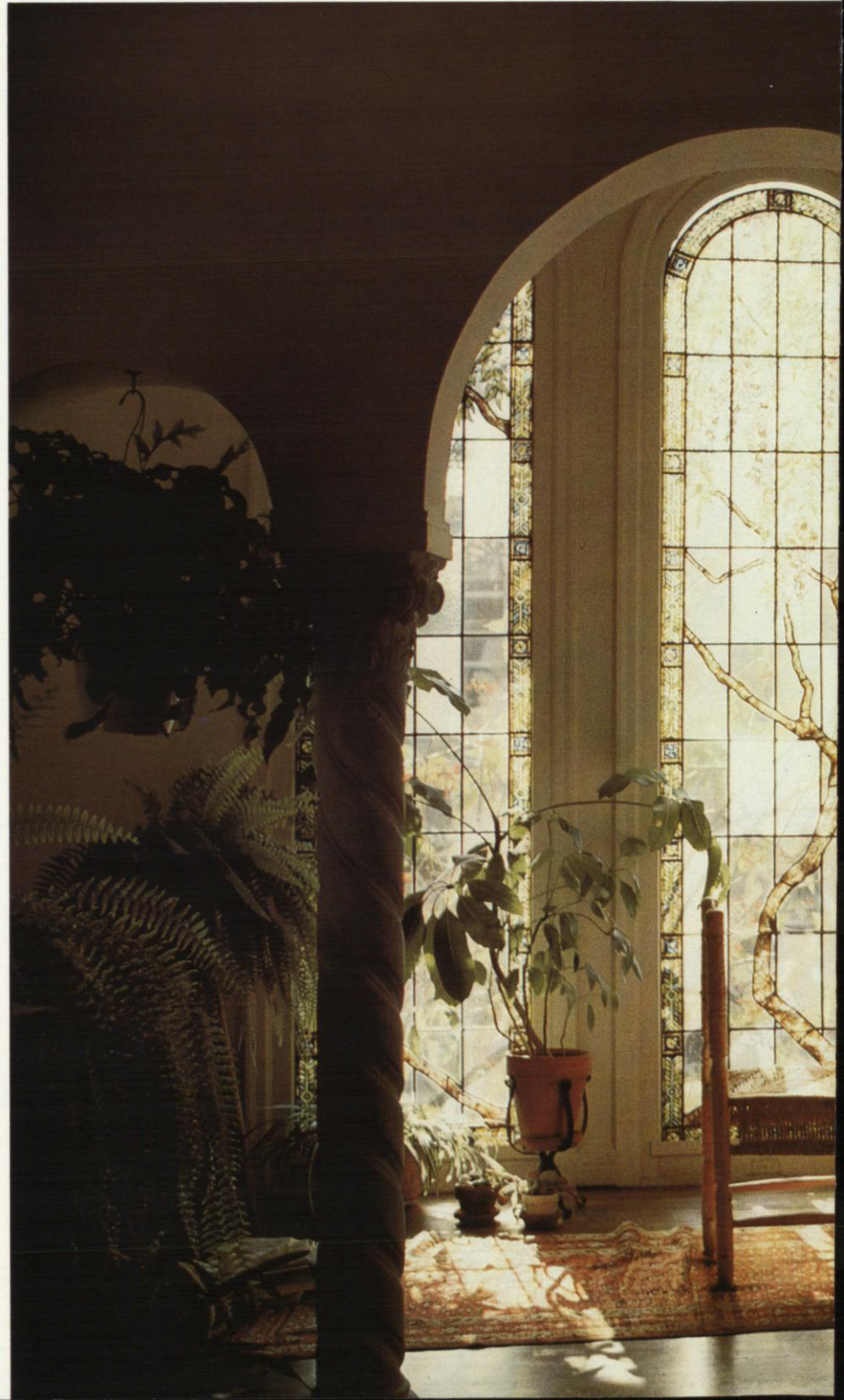
Hospital Products: Important progress in improving profit margins was achieved by the Hospital Products Division in the past 12 months. This was accomplished through a combination of manufacturing cost reductions, plant consolidations and emphasis on products offering better profit margins. Among these were the new *Triflo* Incentive Deep Breathing Exerciser and the new one-piece external catheter which was introduced nationally in the fourth quarter. The Non-Adhering Dressings line also showed volume increases as a result of continued sales efforts.



Prince Matchabelli: The solid growth pattern which has been sustained by the Prince Matchabelli Division in recent years was extended in 1976, with sales advancing by 27 per cent. Three of the Division's brands—*Cachet*, *Wind Song* and *Aviance*—now rank among the industry's ten best-selling fragrances. In non-fragrance areas, the consumer franchise of the *Erno Laszlo* skin preparations line is growing rapidly, with important gains particularly in larger volume specialty stores. The *Aziza* brand has become a major factor in the eye make-up industry. Innovative new products have nearly tripled sales over a two-year period for this brand.



International: Many of the major brands introduced through the years by Chesebrough-Pond's in the United States enjoy wide acceptance today throughout the world. At the same time, the International Division also markets many products developed specifically to meet the selling potential in one or more nations abroad. Such well-established brands as *Durban's* Toothpaste, *Lord Cheseline* Hair Dressing and Spray, *Peggy Sage* Nail Polish and Lipsticks and *Tricofilina* Shampoo were joined during the past 12 months by promising new products, including *Pond's* Foam Mask in West Germany; *Patrichs* Men's Cologne and After Shave in Spain; and *Pond's* Tintje Zacht (tinted face cream) in The Netherlands.



1976 International Net Sales by Area and
Change from 1975

Europe	\$ 87,083,000	+ 4.9%
Western Hemisphere ..	67,502,000	+ 7.3%
Far East	30,100,000	+ 1.6%
Africa	27,138,000	+16.1%
	<u>\$211,823,000</u>	+ 6.5%



Ten-Year Summary 1967-1976

(in thousands of dollars)

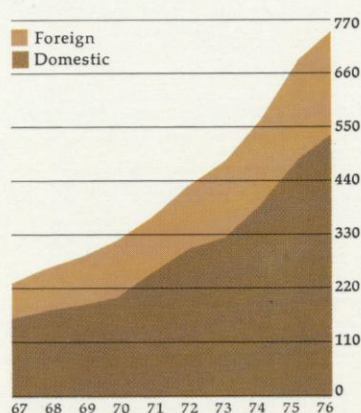
	1976	1975	1974	1973	1972	1971
Operations:						
Net sales	\$746,986	\$674,583	\$561,257	\$474,728	\$425,581	\$368,081
Operating costs and expenses	636,726	577,280	478,080	399,746	356,411	306,413
Interest expense	9,279	8,607	6,460	4,601	4,324	3,921
Income before taxes	104,787	89,540	81,189	73,718	67,479	60,696
Income taxes	50,653	41,618	38,018	34,873	32,737	30,246
Net income	54,134	47,922	43,171	38,845	34,742	30,450
Earnings per share	1.69	1.50	1.36	1.23	1.12	.99
Dividends per share	.76	.68	.62	.56	.54	.52
Pre-tax income as a per cent of net sales ...	14.0%	13.3%	14.5%	15.5%	15.9%	16.5%
Net income as a per cent of net sales	7.2%	7.1%	7.7%	8.2%	8.2%	8.3%

Year-End Financial Position:

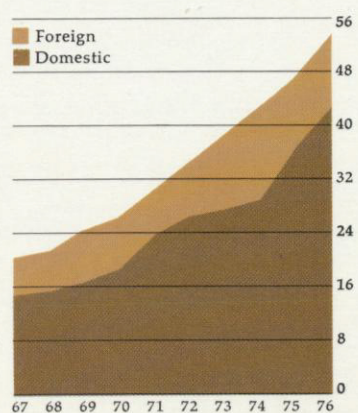
Current assets	\$345,468	\$312,876	\$286,630	\$209,307	\$188,394	\$165,273
Current liabilities	111,720	107,737	116,177	68,764	67,146	66,984
Working capital	233,748	205,139	170,453	140,543	121,248	98,289
Property, plant and equipment (net)	123,497	119,803	102,811	82,181	76,322	59,353
Total assets	514,897	478,582	436,262	338,896	311,620	270,988
Long-term debt	72,172	76,714	60,275	40,217	48,670	41,726
Shareholders' equity	317,002	282,822	250,759	223,170	191,678	158,794
Shareholders' equity per share	9.84	8.85	7.90	7.06	6.12	5.15
Return on shareholders' equity	19.1%	19.1%	19.3%	20.3%	21.9%	22.2%
Shares outstanding	32,211,084	31,950,552	31,754,210	31,619,390	31,318,558	30,826,872
Stock Price Range	32¹/₂-22¹/₂	33¹/₂-18⁵/₈	33³/₄-13³/₈	46-30	44³/₄-28¹/₄	30¹/₄-22¹/₄

NOTE: 1975 and prior share data restated to reflect two-for-one stock split in 1976.

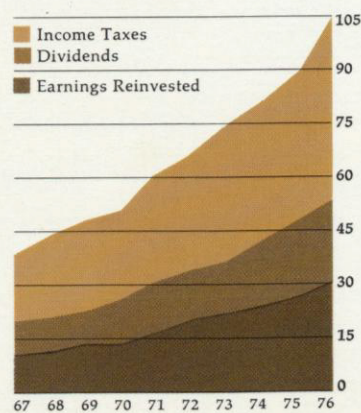
Net Sales
(in millions of dollars)



Net Income
(in millions of dollars)



Distribution of Income
(in millions of dollars)

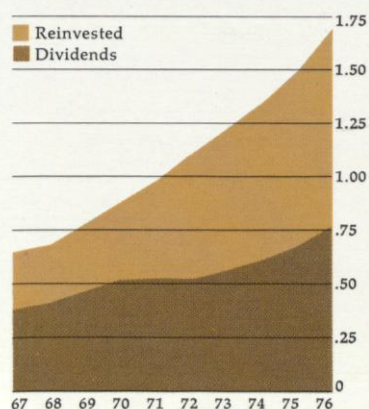


1970 1969 1968 1967

\$318,407	\$282,348	\$254,654	\$225,112
265,194	234,921	211,387	189,744
4,174	2,742	1,213	829
51,370	48,460	44,452	37,965
24,540	24,016	22,679	17,325
26,830	24,444	21,773	20,640
.89	.79	.69	.66
.51	.47	.43	.39
16.1%	17.2%	17.5%	16.9%
8.4%	8.7%	8.6%	9.2%

\$144,977	\$133,836	\$120,111	\$103,101
50,356	46,542	42,512	34,226
94,621	87,294	77,599	68,875
50,244	47,535	37,086	34,732
237,328	217,003	173,309	147,951
45,523	47,625	19,730	13,080
137,116	116,230	108,725	97,330
4.50	3.90	3.45	3.10
23.1%	22.5%	22.4%	23.7%
0,493,310	29,813,224	31,476,560	31,353,128
26 ¹ / ₂ -16 ³ / ₈	27 ¹ / ₄ -18 ¹ / ₂	24 ¹ / ₄ -17 ¹ / ₈	22 ³ / ₈ -13 ⁷ / ₈

**Earnings and Dividends
Per Share (in dollars)**



Management Analysis of the Summary of Operations

Net Sales

Consolidated net sales for 1976 showed an increase of 10.7 per cent over 1975 with all operating divisions contributing to the gain. This compares with a sales increase of 20.2 per cent in 1975. The Health and Beauty Products Division posted an increase of 11.7 per cent following an increase of 8.4 per cent in 1975. A significant portion of the 1976 increase in sales was due to a highly successful consumer promotion conducted by the Health and Beauty Products Division which helped the Division's major brands increase their market shares. Increased competition in the spaghetti sauce market plus a slowing of growth in this market category resulted in an 8.2 per cent sales increase in the Packaged Foods Division. During the year, the Division successfully introduced its *Ragú* Extra Thick and Zesty Spaghetti Sauce as a line extension which received immediate consumer acceptance. This year's strong sales increases of the *Aziza* line and the *Aviance* fragrance line, which was introduced in 1975, helped the Prince Matchabelli Division achieve a 27.4 per cent sales gain, following the gain of 27.6 per cent reported in 1975. Despite the discontinuance of less profitable products, the Hospital Products Division sales increased.

10.8 per cent, the largest increase in the last five years. The Health-tex Division sales increase of 11.6 per cent, while higher than the overall corporate increase, was nevertheless disappointing in that production scheduling problems restricted the Division from achieving its full potential. Major management efforts are being made to solve these scheduling problems.

The International Division sales increase of 6.5 per cent was achieved despite some very unfavorable currency translation comparisons, particularly in Argentina, Italy, Mexico and the United Kingdom.

Of the total Domestic sales increase of 12.5 per cent in 1976, approximately 7.5 per cent was a result of volume growth and 5.0 per cent came from price increases necessitated by increasing costs. International Division sales growth of 6.5 per cent was the result of volume increases of approximately 8.5 per cent and price increases of 21.5 per cent which were inadequate to offset the sales reductions of 23.5 per cent caused by changes in relative rates of exchange.

Of the total Domestic sales increase of 23.4 per cent in 1975, approximately 11.0 per cent came from price increases necessitated by increasing costs and 12.4 per cent was the result of volume growth. International Division sales

growth of 13.1 per cent was the result of price increases of approximately 29.7 per cent, offset by volume reductions of 3.4 per cent and changes in relative rates of exchange which reduced sales by 13.2 per cent.

Operating Costs and Expenses

Cost of products sold decreased from 49.5 per cent of sales in 1975 to 49.0 per cent in 1976 despite a slightly higher charge related to foreign currency fluctuations of \$4,386,000 in 1976 as compared to \$3,973,000 in 1975. Slightly lower production costs in each of the operating divisions, except the Packaged Foods and Prince Matchabelli Divisions, contributed to the decrease. The increase in production costs for the Packaged Foods and Prince Matchabelli Divisions was partly due to the absorption of new plant start-up expenses. The balance of the decrease in cost of products sold was favorably impacted by the increase of the Prince Matchabelli Division as a percentage of total sales because this division has a lower cost of products sold percentage than the other divisions even after absorbing start-up expenses.

Cost of products sold increased from 48.3 percent of sales in 1974 to 49.5 per cent in 1975. The impact of exchange losses on cost of products sold accounted for almost half of the percentage increase. The balance is attributable to the fact that all of the divisions except Prince Matchabelli experienced higher production costs, and the Packaged Foods and Health-tex Divisions, which have relatively higher cost of products sold than the other divisions, increased as a percentage of total sales.

Selling, advertising and administrative expenses were up 11.2 per cent to support the sales gain and absorbed 36.2 per cent of each sales dollar as compared with the 36.1 per cent of sales in 1975. Advertising expense absorbed a greater percentage of each sales dollar in 1976 over 1975. This was primarily the result of increased spending in the Health and Beauty Products and Prince Matchabelli Divisions to help sustain their sales growth. The selling, advertising and administrative group of expenses had absorbed a smaller percentage of the sales dollar in 1975 than it had in 1974.

Interest Expense

Interest expense of \$9,279,000 was 7.8 per cent higher than in 1975, as a result of a higher average level of borrowing required to finance the increased working capital needs and in part as a result of

increased foreign borrowings at higher interest rates to reduce the Company's foreign currency exposure. Interest rates, however, averaged out at approximately the same effective rate during 1976 that the Company experienced during 1975.

In 1975 interest expense had shown a 33.2 per cent increase over 1974, principally as a result of substantially increased borrowings for working capital needs and to finance the Company's capital expansion program. The major capital expenditures in 1975 were made to provide increased capacity for the Health-tex and Packaged Foods Divisions plus the major portion of the expenditures for the new Prince Matchabelli Division plant in Huntsville, Alabama which began full operation in 1976.

Foreign Exchange

During 1975 the Company changed its method of accounting to conform to the Financial Accounting Standards Board Statement No. 8. The change in accounting method has two effects on operating results: first, adjustments to inventory carrying values as a result of exchange

rate fluctuations are postponed until the inventory is sold and second, the classification of such adjustments as "Cost of products sold" rather than "Gain (loss) on foreign exchange". As previously indicated, the Company charged to cost of products sold \$4,386,000 and \$3,973,000 in 1976 and 1975, respectively. Exclusive of amounts charged to cost of products sold, the Company reported a gain on foreign exchange of \$1,144,000 in 1976 and a loss on foreign exchange of \$1,359,000 in 1975. The primary reason for this difference was that 1976 included a gain on forward contracts of \$1,889,000 and 1975 included a loss on forward contracts of \$106,000. The countries in which the Company had major exchange losses were Argentina, Italy, the United Kingdom and Zambia in 1976, and Argentina, South Africa and the United Kingdom in 1975. In 1974, exclusive of \$943,000 charged to cost of products sold, the Company recorded a gain on foreign exchange of \$496,000.

Provision for Taxes on Income

The 1976 provision for taxes on income at 48.3 per cent of income before taxes

was higher than the 1975 rate of 46.5 per cent, principally the result of the increased effective tax rate in International operations partially offset by an increase in tax-exempt earnings from the Company's operations in Puerto Rico. In 1974, the effective rate was 46.8 per cent. A reconciliation of the 1976 and 1975 provisions for income taxes to the United States statutory rate (48%) is presented in the income taxes footnote to the consolidated financial statements.

Net Income

Net income for 1976 was higher than 1975 by \$6,212,000 or 13.0 per cent as compared to net income for 1975 which was higher than 1974 by \$4,751,000 or 11.0 per cent.

Inventories

As a result of a continuing program to bring inventories back to more traditional levels of sales coverage, the 10.7 per cent sales increase was achieved in 1976 with an increase in inventories of only 1.4 per cent. Thus, at year end, inventories were down to 23.7 per cent of the annual sales figure compared to 25.9 per cent at the end of 1975.

A major reason for the inventory increase in 1975 over 1974 was the rapid growth of the Ragú business and the increasing importance of tomato paste in the total inventory picture.



Operating Results Worldwide by Lines of Business*

	1976	1975	1974	1973	1972
Net Sales	(in thousands of dollars)				
Consumer packaged goods	\$441,854	\$397,815	\$352,393	\$304,190	\$282,259
Packaged foods	155,059	142,348	102,450	81,088	62,013
Apparel	124,185	111,260	85,581	71,139	63,914
Hospital supplies	25,888	23,160	20,833	18,311	17,395
Total Net Sales	\$746,986	\$674,583	\$561,257	\$474,728	\$425,581
Income from Operations					
Consumer packaged goods	\$ 70,824	\$ 59,798	\$ 53,712	\$ 52,726	\$ 50,064
Packaged foods	21,019	21,386	17,391	11,793	9,567
Apparel	18,407	16,568	12,953	12,199	11,698
Hospital supplies	2,503	1,848	1,504	718	16
Total Income from Operations	112,753	99,600	85,560	77,436	71,345
Other (expense) net	(7,966)	(10,060)	(4,371)	(3,718)	(3,866)
Income before provision for taxes on income	104,787	89,540	81,189	73,718	67,479
Provision for taxes on income	50,653	41,618	38,018	34,873	32,737
Net income	\$ 54,134	\$ 47,922	\$ 43,171	\$ 38,845	\$ 34,742

*The above is presented in the form required by regulations of the Securities and Exchange Commission. The operating results, as discussed in the President's Letter and the Financial Review, are presented on an internal divisional basis.

Quarterly Data	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1976:	(in thousands of dollars)			
Net Sales	\$176,823	\$167,744	\$216,874	\$185,545
Net Income	13,917	11,754	19,216	9,247
Earnings Per Share	.43	.37	.60	.29
Dividends Per Share	.19	.19	.19	.19
Stock Price Range	32 ¹ / ₂ -28	30 ⁵ / ₈ -25 ⁷ / ₈	30-25 ³ / ₄	27 ¹ / ₂ -22 ¹ / ₂
1975:				
Net Sales	\$152,113	\$156,970	\$195,788	\$169,712
Net Income	12,019	10,494	16,373	9,036
Earnings Per Share	.38	.33	.51	.28
Dividends Per Share	.17	.17	.17	.17
Stock Price Range	32 ¹ / ₂ -18 ⁵ / ₈	33 ¹ / ₂ -28 ¹ / ₄	33 ¹ / ₄ -24 ⁵ / ₈	31 ⁵ / ₈ -24 ¹ / ₂

Consolidated Statement of Income

CHESEBROUGH-POND'S INC. AND SUBSIDIARIES

	Year ended December 31,	
	1976	1975
Net sales	\$746,986,000	\$674,583,000
Royalties	2,493,000	2,297,000
Operating revenues	749,479,000	676,880,000
Cost of products sold	366,114,000	333,859,000
Selling, advertising and administrative expenses	270,612,000	243,421,000
Operating costs and expenses	636,726,000	577,280,000
Income from operations	112,753,000	99,600,000
Other income (expense):		
Interest expense	(9,279,000)	(8,607,000)
Interest income	901,000	568,000
Gain (loss) on foreign exchange	1,144,000	(1,359,000)
Miscellaneous—net	(732,000)	(662,000)
	(7,966,000)	(10,060,000)
Income before provision for taxes on income	104,787,000	89,540,000
Provision for taxes on income (including charge equivalent to tax benefit relative to the Stock Plan \$120,000 in 1976 and \$1,426,000 in 1975)	50,653,000	41,618,000
Net income	\$ 54,134,000	\$ 47,922,000
Earnings per share	\$1.69	\$1.50

See accompanying notes.



Consolidated Balance Sheet

Assets	December 31,	
	1976	1975
Current Assets:		
Cash (including time deposits of \$6,042,000 in 1976 and \$2,460,000 in 1975)	\$ 19,654,000	\$ 16,927,000
Short-term investments, at cost which approximates market	1,199,000	460,000
Accounts receivable	139,877,000	113,602,000
Inventories:		
Finished goods	66,510,000	58,245,000
Raw materials and work-in-process	110,299,000	116,200,000
Prepaid expenses	7,929,000	7,442,000
Total current assets	345,468,000	312,876,000
Property, Plant and Equipment:		
At cost	183,745,000	171,292,000
Less accumulated depreciation	60,248,000	51,489,000
Net property, plant and equipment	123,497,000	119,803,000
Other Assets, at cost	4,804,000	4,822,000
Goodwill and Trademarks	41,128,000	41,081,000
	<u>\$514,897,000</u>	<u>\$478,582,000</u>

See accompanying notes.

Liabilities and Shareholders' Equity	December 31,	
	1976	1975
Current Liabilities:		
Notes payable	\$ 23,206,000	\$ 29,195,000
Accounts payable and accrued liabilities	66,557,000	62,244,000
Federal and foreign income taxes	18,297,000	13,042,000
Long-term obligations due within one year	3,660,000	3,256,000
Total current liabilities	<u>111,720,000</u>	<u>107,737,000</u>
Long-Term Obligations	72,172,000	76,714,000
Deferred Executive Incentive Compensation	2,467,000	2,326,000
Deferred Taxes	5,838,000	4,496,000
Other Non-Current Liabilities	5,698,000	4,487,000
Shareholders' Equity:		
Preferred stock—\$1.00 par value		
Authorized and unissued—1,000,000 shares	—	—
Common stock—\$1.00 par value		
Authorized—50,000,000 shares (1975—20,000,000)		
Issued—32,312,478 shares (1975—16,030,265)	32,312,000	16,030,000
Capital surplus	42,454,000	54,432,000
Retained earnings	244,181,000	214,470,000
	<u>318,947,000</u>	<u>284,932,000</u>
Less 101,394 shares of treasury stock (1975—54,989) at cost	1,945,000	2,110,000
Total shareholders' equity	<u>317,002,000</u>	<u>282,822,000</u>
	<u>\$514,897,000</u>	<u>\$478,582,000</u>

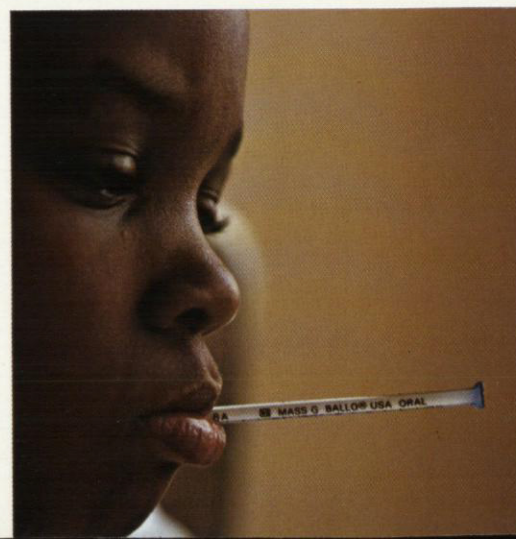


Consolidated Statements of Capital Surplus and Retained Earnings

CHESEBROUGH-POND'S INC. AND SUBSIDIARIES

	Year ended December 31,	
	1976	1975
Capital Surplus		
Balance at beginning of year	\$ 54,432,000	\$ 48,925,000
Par value of shares issued for two-for-one stock split	(16,130,000)	—
Excess of conversion price of debentures over par value of stock issued less related expenses	522,000	759,000
Proceeds in excess of par value of stock issued under the Stock and Stock Option Plans ...	3,366,000	3,266,000
Tax benefit relative to the Stock Plan	120,000	1,426,000
Other	144,000	56,000
Balance at end of year	<u>\$ 42,454,000</u>	<u>\$ 54,432,000</u>
Retained Earnings		
Balance at beginning of year	\$214,470,000	\$188,223,000
Net income	<u>54,134,000</u>	<u>47,922,000</u>
	268,604,000	236,145,000
Dividends paid—\$.76 per share (\$.68 in 1975)	<u>24,423,000</u>	<u>21,675,000</u>
Balance at end of year	<u>\$244,181,000</u>	<u>\$214,470,000</u>

See accompanying notes.



Statement of Changes in Consolidated Financial Position

CHESEBROUGH-POND'S INC. AND SUBSIDIARIES

	Year ended December 31,	
	1976	1975
Sources of Working Capital		
Net income	\$ 54,134,000	\$ 47,922,000
Add charges to net income not involving working capital:		
Depreciation	10,257,000	8,950,000
Stock Plan tax benefit	120,000	1,426,000
Deferred taxes	1,342,000	1,099,000
Other expenses not requiring expenditures of cash	1,271,000	2,416,000
Provided from operations	67,124,000	61,813,000
Conversion of debentures into common stock	539,000	784,000
Proceeds from stock issued under the Stock and Stock Option Plans	3,501,000	3,341,000
Increase in long-term obligations	40,510,000	21,100,000
Book value of disposed assets	942,000	1,599,000
	<u>112,616,000</u>	<u>88,637,000</u>
Applications of Working Capital		
Additions to property, plant and equipment	14,893,000	27,541,000
Decrease in long-term obligations:		
Convertible debentures	539,000	784,000
Other	44,513,000	3,877,000
Dividends	24,423,000	21,675,000
Other—net	(361,000)	74,000
	<u>84,007,000</u>	<u>53,951,000</u>
Increase in working capital	<u>\$ 28,609,000</u>	<u>\$ 34,686,000</u>
Changes in Components of Working Capital		
Increase in current assets:		
Cash	\$ 2,727,000	\$ 1,950,000
Short-term investments	739,000	93,000
Accounts receivable	26,275,000	8,461,000
Inventories	2,364,000	14,535,000
Prepaid expenses	487,000	1,207,000
	<u>32,592,000</u>	<u>26,246,000</u>
Increase (decrease) in current liabilities:		
Notes payable	(5,989,000)	(5,921,000)
Accounts payable and accrued liabilities	4,313,000	801,000
Federal and foreign income taxes	5,255,000	(5,296,000)
Long-term obligations due within one year	404,000	1,976,000
	<u>3,983,000</u>	<u>(8,440,000)</u>
Increase in working capital	<u>\$ 28,609,000</u>	<u>\$ 34,686,000</u>

See accompanying notes.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of all domestic and foreign subsidiaries. Intercompany accounts and material intercompany transactions have been eliminated in consolidation.

Foreign Currency Translation

During 1975, the Company changed its method of translating the foreign currency financial statements of overseas operations and other foreign currency transactions to conform with Statement of Financial Accounting Standards No. 8.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Cost represents standard cost which approximates actual cost.

Property, Plant and Equipment

These assets are stated at cost and substantially all depreciation is provided on a straight-line basis for financial accounting purposes. Accelerated depreciation methods are used for income tax purposes. Deferred income taxes are provided on the difference between the depreciation expense for financial accounting and income tax purposes. Maintenance and repairs are charged against earnings as incurred. Additions and major improvements are capitalized. Upon the sale or retirement of property, the property accounts and the related accumulated depreciation are appropriately adjusted and any profit or loss is reflected in income.

Investment Credit

Investment tax credits are applied as a reduction of the provision for taxes on income in the year the related property is put into service.

Goodwill and Trademarks

Costs in excess of net assets of acquired companies and trademarks acquired under agreements entered into prior to November 1, 1970, are not being amortized since there is no present indication of any permanent impairment in the value of these assets. Goodwill and Trademarks acquired after October 31, 1970, are not material.

Advertising and Promotion Expenses

Advertising expenses are charged to income during the year in which they are incurred. Promotion expenses are charged to income during the period of the promotional campaign.

Retirement Plans

The Company has various retirement plans covering the majority of its employees worldwide. The Company provides for pension costs based on current and future services. The Company's policy is to fund pension costs and substantially all past service costs have been fully funded for the principal plans.

Earnings Per Share

The computation of earnings per share is based on the weighted average number of shares outstanding (32,121,000 in 1976 and 31,858,000 in 1975). Dilution relating to convertible debentures and other rights was not material.

Common Stock Split

On May 6, 1976, the shareholders approved a two-for-one stock split and an increase in the Company's authorized common stock from 20 million to 50 million shares. The par value remained at \$1.00 per share. Each shareholder of record on June 4, 1976 received one additional share for each share owned. The aggregate number of shares then outstanding increased from 16,129,759 to 32,259,518 shares, and in connection therewith, \$16,129,759 was transferred from capital surplus to common stock. All appropriate share information in this report has been restated to reflect the stock split.

Foreign Operations

The consolidated balance sheet at December 31, 1976 and 1975 includes net assets of \$106,974,000 and \$100,870,000 respectively for subsidiaries and branches in foreign countries.

Results of foreign operations included in the consolidated statement of income were as follows:

	1976	1975
Net sales	\$211,823,000	\$198,918,000
Net income	11,692,000	11,389,000

The Company reported, exclusive of amounts charged to cost of products sold, a gain on foreign exchange of \$1,144,000 in 1976 and a loss on foreign exchange of \$1,359,000 in 1975. The amounts charged to cost of products sold were \$4,386,000 and \$3,973,000 in 1976 and 1975, respectively.

Unremitted foreign earnings are intended to remain perma-

nently invested to finance future growth and expansion or will be remitted in future tax-free liquidations and accordingly no income taxes have been provided on these undistributed earnings which aggregated \$59,039,000 at December 31, 1976.

Stock Plan

The Plan provides that no more than 300,000 shares can be allocated in any one year and no more than 4% thereof can be allocated to any one individual in any year. With the approval of shareholders, in 1974 the Plan was amended to provide for the awarding rather than the purchasing of shares and further amended to allow employees to defer the receipt of the shares until separation from the Company. Shares offered under the Stock Purchase Plan in prior years allow for payment of the shares over a five-year period.

The status of the Plan at December 31 was as follows:

	Purchase Plan		Award Plan	Total Shares	Deferred Shares
	Shares	Purchase Price	Shares		
1976:					
Outstanding					
January 1	182,040	\$10.60-12.825	332,918	514,958	3,480
Allocations	—	—	169,826	169,826	—
Issued	(143,584)	10.60-12.825	(64,652)	(208,236)	(428)
Deferred	—	—	(7,120)	(7,120)	7,120
Cancelled	(2,326)	12.825	(19,314)	(21,640)	—
Units in lieu of dividends ...	—	—	—	—	314
Outstanding					
December 31 ..	<u>36,130</u>	<u>\$11.66-12.825</u>	<u>411,658</u>	<u>447,788</u>	<u>10,486</u>
Shares Reserved .				<u>1,414,608</u>	
1975:					
Outstanding					
January 1	303,634	\$ 9.62-12.825	123,742	427,376	—
Allocations	—	—	245,092	245,092	—
Issued	(114,004)	9.62-12.825	(21,260)	(135,264)	—
Deferred	—	—	(3,480)	(3,480)	3,480
Cancelled	(7,590)	10.60-12.825	(11,176)	(18,766)	—
Outstanding					
December 31 ..	<u>182,040</u>	<u>\$10.60-12.825</u>	<u>332,918</u>	<u>514,958</u>	<u>3,480</u>
Shares Reserved				<u>1,623,272</u>	

Under the Internal Revenue Code and pertinent regulations of the United States Treasury Department, the Company is entitled to tax deductions relating to the difference between the

employees' purchase price and the market value of the shares at certain applicable measurement dates. With respect to purchase agreements dated prior to January 1, 1973, an amount equivalent to the tax benefit provided by these regulations has been charged to income and has been credited to capital surplus as additional consideration received by the Company for the stock sold under the Plan. With respect to agreements dated after December 31, 1972, a charge to income is reflected over a five-year period for compensation expense. During 1976 and 1975, \$3,054,000 and \$2,194,000 were charged to income respectively. The measurement dates and the timing of expense for financial accounting and tax purposes differ. Deferred taxes have been provided for the related future tax benefit. Additional tax effects arising from the change in market values on these different measurement dates are applied to capital surplus.

Stock Option Plans

On May 4, 1972, the shareholders approved a Qualified Stock Option Plan which authorizes issuance of options to purchase not more than 1,000,000 shares of common stock by certain employees at an option price of not less than 100% of the fair market value of the stock at date of grant. At December 31, 1976, no options had been granted.

On May 17, 1973, the date of the merger with Health-tex, Inc., the Company adopted a qualified Substitute 1971 Health-tex Employee Stock Option Plan. All Health-tex options that were outstanding at that date were converted into options for the Company's common stock and the option price was adjusted accordingly. No additional options are to be granted under the Plan.

The status of the Plan at December 31 follows:

	1976		1975	
	Shares	Option Price	Shares	Option Price
Outstanding, January 1	68,462	\$15.00-37.44	86,800	\$15.00-37.44
Exercised	(22,216)	15.00	(18,338)	15.00
Cancelled	(1,194)	15.00-37.44	—	—
Outstanding,				
December 31	<u>45,052</u>	<u>\$15.00-37.44</u>	<u>68,462</u>	<u>\$15.00-37.44</u>

Under the Tax Reform Act of 1976 all qualified options must be exercised before May 21, 1981, to retain their qualified status for tax purposes.

Property, Plant and Equipment

Property, plant and equipment at December 31 follows:

	1976	1975
Land	\$ 8,754,000	\$ 8,243,000
Buildings and building improvements .	67,483,000	62,860,000
Machinery and equipment	99,308,000	87,804,000
Leasehold improvements	3,946,000	3,307,000
Construction in progress	4,254,000	9,078,000
	<u>183,745,000</u>	<u>171,292,000</u>
Less accumulated depreciation	60,248,000	51,489,000
Net property, plant and equipment	<u>\$123,497,000</u>	<u>\$119,803,000</u>

Rent Expense and Lease Commitments

Rent expense charged to income was \$11,267,000 and \$9,562,000 in 1976 and 1975, respectively. At December 31, 1976, the minimum commitments under noncancelable leases were as follows:

	Leased Facilities	Sublease Revenues	Net Commitments
	(in thousands of dollars)		
1977	\$5,700	\$402	\$5,298
1978	4,212	66	4,146
1979	3,505	66	3,439
1980	3,218	45	3,173
1981	2,782	19	2,763
1982-86	7,273	95	7,178
1987-91	2,200	62	2,138
1992-96	888	—	888

There are no lease commitments beyond 1996.

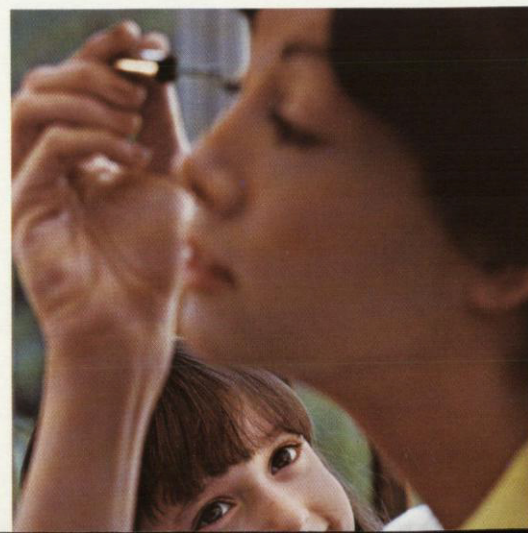
Long-Term Obligations

Long-term obligations at December 31, excluding amounts due within one year, were:

	1976	1975
4 ³ / ₄ % Convertible debentures, due December 31, 1983	\$ 1,743,000	\$ 2,014,000
6 ¹ / ₄ % Convertible debentures, due December 15, 1984	15,497,000	15,765,000
Term loans	7,272,000	10,935,000
Long-term lease obligations	7,660,000	8,000,000
8 ¹ / ₄ % Notes due January 31, 1979	40,000,000	—
Domestic revolving credit loans	—	20,000,000
Other long-term debt	—	20,000,000
Total	<u>\$72,172,000</u>	<u>\$76,714,000</u>

In 1968 and 1969, a wholly-owned subsidiary of the Company sold to purchasers outside the United States \$12,000,000 principal amount of 4³/₄% debentures, and \$25,000,000 principal amount of 6¹/₄% debentures, respectively. These debentures are guaranteed on a subordinated basis as to principal and interest by the Company. The 4³/₄% debentures are convertible into common stock of the Company at \$24.50 per share and are subject to redemption through annual sinking fund payments of \$850,000. In 1976, the first sinking fund requirement was satisfied by the contribution of previously converted debentures by the subsidiary as provided in the Trust Agreement. During 1976 and 1975, \$271,000 and \$617,000 of the 4³/₄% debentures were converted into 11,054 and 25,172 shares, respectively. The 6¹/₄% debentures are convertible into common stock of the Company at \$26.75 per share and are subject to redemption through annual sinking fund payments of \$1,800,000 beginning December 15, 1977. During 1976 and 1975, \$268,000 and \$167,000 of the 6¹/₄% debentures were converted into 10,014 shares and 6,224 shares, respectively. It is management's present intention to satisfy the 1977 sinking fund requirements by the contribution of previously converted debentures. At December 31, 1976, an aggregate of 650,706 shares of common stock was reserved for conversion of these debentures.

Term loans consist of \$6,700,000 due to domestic banks and \$572,000 foreign currency loans. The domestic term loans provide for interest at ¹/₄ of 1% above 115% of the prime rate with a maximum average interest rate of 7¹/₂%. The loans are payable in two annual installments beginning December 31, 1978 and may be repaid earlier at the Company's discretion without penalty.



On February 10, 1976, the Company placed \$40,000,000 of 8¹/₄% notes due January 31, 1979, with an institutional investor. A prepayment of \$20,000,000 is required on January 2, 1979. Voluntary prepayments, without premium or penalty, may be made subsequent to January 31, 1978. The proceeds were used to repay the balance owing on the revolving credit loans and short-term loans. As a result, \$20,000,000 of short-term loans was reclassified as other long-term debt at December 31, 1975.

Three long-term leases for plants have been treated as purchases for both financial accounting and tax purposes. Two leases each call for an annual rental of approximately \$400,000. One lease expires in 1985 and the other in 1994. The third lease calls for an annual rental of approximately \$110,000 and expires in 1990. The Company has an option to purchase the facilities at any time by funding an amount sufficient to retire the then outstanding debt or for a nominal amount after the retirement of the debt.

The loan agreements contain various restrictions, all of which are being met by the Company.

Deferred Executive Incentive Compensation

Under the provisions of the Executive Incentive Profit Sharing Plan, \$2,055,000 was charged to income in 1976 and \$1,789,000 in 1975. Of these amounts, payments of \$301,000 and \$314,000 have been deferred in 1976 and 1975 and converted into 12,084 units and 8,666 units, net of forfeitures, respectively, measured by the current market value of a share of the Company's common stock. Participants will receive, upon retirement, death or termination of employment, shares of the Company's common stock equal to the number of units credited to their accounts unless the Company elects to distribute cash equal to the market value of such shares. Distribution to participants in 1976 consisted of 8,587 shares of common stock. At December 31, 1976, there were 112,406 units credited to participants under the Plan. Deferred taxes have been provided for the related future tax benefit.

Retirement Plans

The Company has charged to income \$3,349,000 in 1976 and \$2,876,000 in 1975 for all retirement plans.

Research and Development

In 1976 and 1975 respectively, approximately \$6,270,000 and \$5,039,000 were expended in Company-sponsored research to develop and improve products.

Income Taxes

The provision for taxes on income consists of the following segments:

	1976	1975
United States	\$35,157,000	\$28,871,000
Foreign	11,203,000	8,392,000
State and local	4,293,000	4,355,000
Total	<u>\$50,653,000</u>	<u>\$41,618,000</u>

Deferred income taxes amounted to \$1,342,000 in 1976 and \$1,099,000 in 1975. Deferred taxes arise primarily from the use of accelerated depreciation methods (1976-\$1,518,000, 1975-\$1,487,000) for income tax purposes.

The provision for taxes on income differs from the amount computed by applying the U.S. statutory rate of 48% to income before taxes. The reasons for this difference are as follows:

	1976		1975	
	Amount	% of Pre-tax Income (in thousands of dollars)	Amount	% of Pre-tax Income
Provision for income taxes				
at the U.S. statutory rate	\$50,298	48.0%	\$42,979	48.0%
State and local income taxes ..	2,232	2.1	2,265	2.5
Difference in effective tax rate of foreign operations	2,208	2.1	(921)	(1.0)
Tax-exempt Puerto Rico operations	(3,299)	(3.1)	(1,077)	(1.2)
Investment tax credits	(970)	(0.9)	(1,237)	(1.4)
Other items	184	0.1	(391)	(0.4)
Actual tax provision	<u>\$50,653</u>	<u>48.3%</u>	<u>\$41,618</u>	<u>46.5%</u>

Quarterly Data (unaudited)

The 1976 quarterly results are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in thousands of dollars)			
Net sales	\$176,823	\$167,744	\$216,874	\$185,545
Gross profit	90,398	85,069	111,637	93,768
Net income	13,917	11,754	19,216	9,247
Earnings per share	.43	.37	.60	.29

Replacement Cost Information (unaudited)

A 1976 Securities and Exchange Commission release requires the Company to present unaudited replacement cost information in its financial statements filed with the Securities and Exchange Commission on Form 10-K, a copy of which is available upon request. This information indicates that it would cost the Company more to replace inventories and productive capacity than the amounts originally incurred to acquire such assets. In addition, estimated amounts of cost of products sold based on replacement cost of inventories at time of sale and

depreciation based on average current replacement cost of productive capacity are greater than the related amounts based on historical cost. The Company has historically been able to compensate for cost increases by increasing sales prices in an amount sufficient to maintain an approximately constant gross profit percentage on sales. The additional investment required to replace productive capacity principally reflects the cumulative impact of inflation on these long-lived assets. The notes to the financial statements in the annual report to the Securities and Exchange Commission on Form 10-K include a more comprehensive discussion of replacement cost information.

The amounts disclosed in the unaudited replacement cost note in the Form 10-K are based on hypothetical assumptions and substantial subjective judgments and estimations. The replacement cost information should not be interpreted as indicative of the actual cost to be incurred in the future to replace the Company's productive capacity, nor should it be interpreted as indicative of the manner in which such capacity will actually be replaced.

Report of Certified Public Accountants

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

To the Shareholders, Chesebrough-Pond's Inc.

We have examined the accompanying consolidated balance sheet of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1976 and 1975 and the related consolidated statements of income, capital surplus, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Chesebrough-Pond's Inc. and subsidiaries at December 31, 1976 and 1975 and the consolidated results of operations and the changes in consolidated financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

February 16, 1977

Corporate Data

Executive Offices

33 Benedict Place
Greenwich, Conn. 06830
Telephone (203) 661-2000

Certified Public Accountants

Arthur Young & Company
277 Park Avenue
New York, N.Y. 10017

Transfer Agent

The Chase Manhattan Bank, N.A.
1 New York Plaza
New York, N.Y. 10015

Registrar

Bankers Trust Company
485 Lexington Avenue
New York, N.Y. 10017

Stock Exchange Listings

New York Stock Exchange (CBM)
London Stock Exchange
Paris Bourse

The Annual Meeting of

Shareholders will be held
at 10:30 a.m. on Thursday,
May 5, 1977, at the Biltmore
Hotel, New York, N.Y.

The Form 10-K Annual Report
filed with the Securities and
Exchange Commission may be
obtained upon request to
the Secretary of the Company.

Board of Directors

J. Edgar Bennett*
*Group Vice President,
Chesebrough-Pond's Inc.*

John F. Betts**
*Retired Chairman of the Board,
Interpace Corporation*

Anthony L. Conrad**
*Consultant,
Former Chairman,
President and Chief Executive
Officer, RCA Corporation*

Alfred S. Foote**
Consultant

William L. Jackson*
*Group Vice President,
Chesebrough-Pond's Inc.*

Robert H. Mann*
*Vice President, Secretary and
General Counsel,
Chesebrough-Pond's Inc.*

Alexander N. McFarlane**
*Honorary Chairman of the Board,
CPC International Inc.*

Jane C. Pfeiffer**
Management Consultant

Louis Russek
*Chairman of the Board,
Health-tex Inc.*

Frank L. Stamberg*
*Group Vice President,
Chesebrough-Pond's Inc.*

Ralph E. Ward*
*Chairman, President
and Chief Executive Officer,
Chesebrough-Pond's Inc.*

Donald G. Wiesen*
*Group Vice President,
Chesebrough-Pond's Inc.*

*Member of Executive Committee
**Member of Audit Committee

Officers

Ralph E. Ward
*Chairman, President and
Chief Executive Officer*

J. Edgar Bennett
Group Vice President

William L. Jackson
Group Vice President

Frank L. Stamberg
Group Vice President

Donald G. Wiesen
Group Vice President

Robert H. Mann
*Vice President, Secretary
and General Counsel*

Robert W. Bennett
Vice President

George W. Bieler
Vice President

Robert A. Breakstone
Vice President

Howard E. Casler
Vice President

Charles J. Chapman, Jr.
Vice President

Ward J. Haas
Vice President

Donald Heller
Vice President

George J. Luby
Vice President

Robert M. Phillips
Vice President

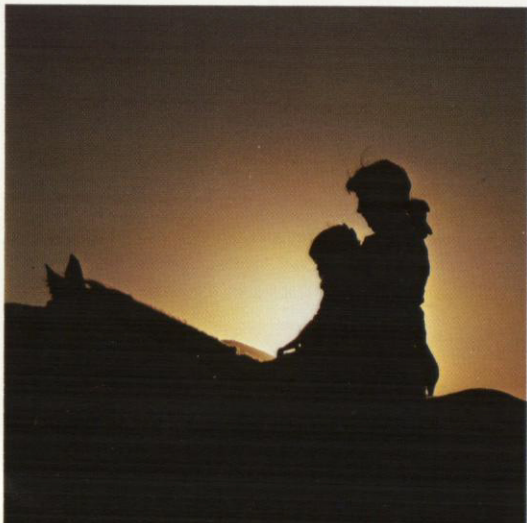
W. Edward Sanford
Vice President

Richard P. Scheifele
Vice President

John D. White
Vice President

J. Donald Powers
Treasurer

William F. Gilroy
Controller



International Branches and Subsidiaries

Argentina, Buenos Aires*
 Australia, Melbourne*
 Bermuda, Hamilton
 Brazil, Sao Paulo*
 Canada, Markham*
 Colombia, Bogota*
 England, London*/Alfreton*
 France, Paris/Pont de L'Arche*
 Guatemala, Guatemala City
 Hong Kong
 India, Madras
 Indonesia, Jakarta*
 Ireland, Dublin
 Italy, Milan*
 Jamaica, Kingston
 Japan, Tokyo*
 Kenya, Nairobi*
 Malawi, Blantyre*
 Malaysia, Kuala Lumpur
 Mexico, Cuernavaca*
 Monaco, Monte Carlo*
 New Zealand, Auckland
 Nigeria, Apapa
 Panama, Panama City
 Peru, Lima*
 Philippines, Manila
 Puerto Rico, San Juan
 Rhodesia, Salisbury*
 Singapore
 South Africa, Germiston*
 Spain, Madrid*
 Switzerland, Geneva
 Thailand, Bangkok
 Trinidad, Port of Spain*
 Venezuela, Caracas*
 West Germany, Munich/
 Oberndorf-Am-Neckar*
 Zambia, Lusaka*

*overseas plants

Domestic Plant Locations

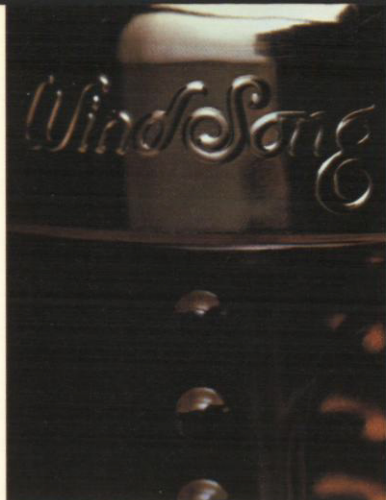
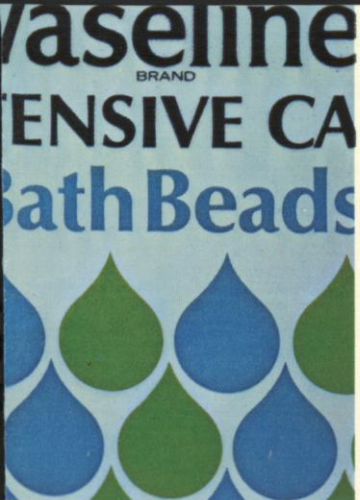
Brunswick, Maine
 Cabo Rojo, Puerto Rico
 Central Falls, Rhode Island
 Centreville, Alabama
 Clinton, Connecticut
 Cumberland, Rhode Island (2)
 Danville, Virginia
 Gadsden, Alabama (2)
 Gardiner, Maine
 Guin, Alabama
 Huntsville, Alabama
 Jefferson City, Missouri
 Las Piedras, Puerto Rico
 Merced, California
 North Hollywood, California
 Oriskany Falls, New York
 Owensboro, Kentucky
 Perth Amboy, New Jersey
 Portland, Maine
 Rochester, New York
 Sherburne, New York
 Watertown, New York

In addition to maintaining plants in 23 countries, Chesebrough-Pond's uses the facilities of manufacturing and selling representatives in 51 other important markets.

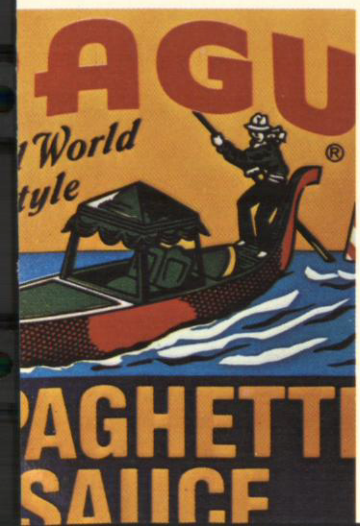
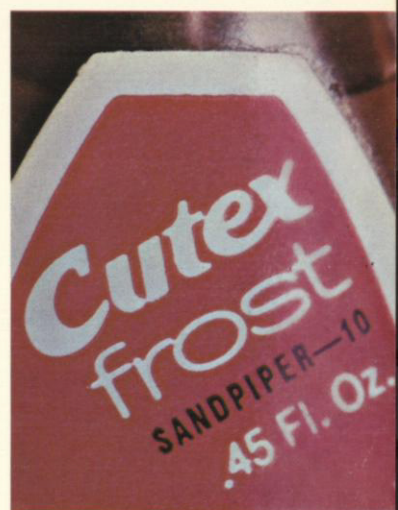
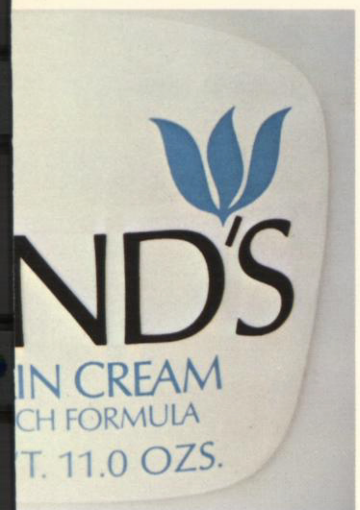
Chesebrough-Pond's products are sold in 140 markets throughout the world.

Adolph's Food Specialties
 *Amoha Shampoo
 Aziza Eye Make-up
 *Busy Girl Dry Shampoo
 *Cotrino Cotton Swabs
 Cutex Nail Polish, Lipstick and Polish Remover
 *Durban's Toothpaste
 Erno Laszlo Skin Care Preparations
 Extra Strength Vaseline Intensive Care Lotion
 Faichney and Ballo Thermometers
 Groom & Clean Hair Products
 Health-tex Children's Apparel
 *Lord Cheseline Hair Dressing and Spray
 *Louis Philippe Cosmetics
 *Lysoform Cleanser/Disinfectant
 Odorono Deodorant
 *Peggy Sage Nail Polish and Lipsticks
 Pertussin Cough and Cold Products
 Pond's Angel Face Make-up
 Pond's Beauty Creams and Lotion
 Pond's Talc and Dusting Powder
 Prince Matchabelli Aviance Fragrance
 Prince Matchabelli Cachet Fragrance
 Prince Matchabelli Wind Song Fragrance
 Prince Matchabelli Golden Autumn Fragrance
 Prince Matchabelli Prophecy Fragrance
 Q-tips Cotton Swabs and Cotton Balls
 Ragú Italian Cooking Sauce
 Ragú Spaghetti Sauces
 *Tricofilina Shampoo
 *Vaseline Balanced Care Shampoo
 *Vaseline Hair Spray
 Vaseline Hair Tonic
 Vaseline Intensive Care Bath Beads
 Vaseline Intensive Care Baby Products
 Vaseline Intensive Care Lotion and Cream
 Vaseline Intensive Care Wipe 'n Dipe Wipes
 Vaseline Petroleum Jelly

*Sold abroad only



Softens on contact.
Even dry, chapped skin
feels better *FAST*.



Chesebrough-Pond's Inc.

33 Benedict Place, Greenwich, Conn. 06830